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## BEFORE THE ARIZONA CORPORATION C

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IN THE MATTER OF THE APPLICATION OF  
ARIZONA PUBLIC SERVICE COMPANY  
FOR A HEARING TO DETERMINE THE  
FAIR VALUE OF THE UTILITY PROPERTY  
OF THE COMPANY FOR RATEMAKING  
PURPOSES, TO FIX A JUST AND  
REASONABLE RATE OF RETURN  
THEREON, AND TO APPROVE RATE  
SCHEDULES DESIGNED TO DEVELOP  
SUCH RETURN.

Docket No. E-01345A-11-0224

Arizona Corporation Commission

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## RUCO'S REPLY BRIEF

The RESIDENTIAL UTILITY CONSUMER OFFICE ("RUCO") submits its Reply Brief in the above matter. RUCO has little to add regarding which Rate of Return the Commission should use. In the end, RUCO believes that the Commission has the discretion to choose what rate of return it wishes to apply moving forward.

RUCO believes the best choice under the circumstances is the 4.725 percent cost of debt which the Commission approved in the deferral order. It most closely aligns with the Commission's objective of minimizing the rate impact to APS' customers. Decision No. 73130 at 37. APS' proposal of using the 8.33 percent WACC would have the opposite effect

1 of maximizing the rate impact to APS' customers – contrary to the Commission's stated  
2 objective.

3       The Company implies that the Commission is somehow bound to use the WACC in  
4 this case. In support the Company cites a thirty-one year old Commission decision –  
5 Decision No. 53537. Decision No. 53537 involved an Arizona Water Company rate case. It  
6 hardly needs to be pointed out that the fact pattern in that case is not even close to the  
7 present situation. The present case involves an acquisition – not a rate case. RUCO pointed  
8 out at great length in its Initial Closing Brief, why this acquisition is unique in many ways – for  
9 instance the whole amount of rate base being considered is acquisition premium – a situation  
10 that RUCO is not aware ever being the case. In fact, the Commission itself, recognized the  
11 unique nature of this case.<sup>1</sup>

12               We find that APS' request for an accounting order  
13               should be granted. As discussed herein, *APS has identified*  
14               *with the proposed transaction and Staff and RUCO agree that*  
15               *circumstances warrant a variation from the usual ratemaking*  
16               *treatment of plant acquired between rate cases.* Decision No.  
17               73130 at 36. (Emphasis Added)

18       It was, in part, because of the unique nature of this case that the Commission in its  
19 deferral order awarded the documented debt cost for the "nonfuel" costs. Decision No.  
20 73130 at 37. The date of Decision No. 73130 is April 24, 2012 so the Commission only  
21 needs to go back less than three years to see a case where the Commission has awarded  
22 less than the full cost of capital treatment.

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23 <sup>1</sup> RUCO would refer to its opening brief for an explanation of all the other reasons this case is unique. RUCO  
24 Brief at 3-6

1       Moreover, it is a basic regulatory principal in Arizona that the Commission has wide  
2 discretion when it comes to ascertaining a cost of capital award. RUCO does not believe that  
3 any party, including APS would disagree. The Company may not agree that RUCO's cost of  
4 debt proposal is reasonable, but neither the Company nor Staff argues that RUCO's proposal  
5 is outside the Commission's discretion.

6       This also answers APS' question of what is so different about APS' pre-existing share  
7 of Units 4 and 5 as compared to its acquisition of 48 percent of Four Corners Units 4 and 5 in  
8 the present case. The circumstances surrounding the original acquisition are different than  
9 the present situation which is unique even by the Commission's standards. The Commission  
10 cannot and should not treat every acquisition as the same – they are not - for all the reasons  
11 RUCO has set forth, RUCO's cost of debt proposal should be approved.

12       RUCO further replies to the arguments made by Walmart, AECC, and others ("Joint  
13 Parties") on the issue of AG-1 as follows. The Joint Parties continue to conflate the definition  
14 of "generation related charges," with the FCA charge. Joint Brief at page 6 line 10. The FCA  
15 charge is not a generation charge associated with the actual electricity production of the  
16 underlying rate structure. It is a form of long term reliability infrastructure that is applied to all  
17 portions of the bill equally. That is why the transmission and distribution portion of an AG-1  
18 customer's underlying rate design will increase as it will with all other rate schedules.

19       The Joint Parties argue that the timing of this case is the reason why AG-1 customers  
20 have this issue, otherwise they would not have to pay this charge. Joint Brief at Page 11.  
21 The AG-1 rate is an experimental rate that has not been in existence for very long. The issue  
22 is not timing - APS does not place proper charges on the AG-1 customer's bill to account for  
23 long term backup/reliability. Transcript at 57. RUCO is surprised that that the Joint Parties  
24 would make the claim that AG-1 customers "pay the full freight of the APS system." Joint  
Brief at 3. The Joint Party's claim is highly speculative, and not supported by the evidence.

1 As Mr. Snook testified, the reserve capacity charge, the one charge assigned to help recover  
2 backup services, does not reflect the cost of long term capacity. Transcript at 330. The Joint  
3 Parties' argument is not correct and should be dismissed.

4 The Joint Parties' argument that the reserve capacity charge as it applied to the AG-1  
5 rate is a FERC sanctioned rate is also incorrect. It is not - it was a negotiated figure.  
6 Transcript at 330. The FERC rate ended up being used as a proxy, because as mentioned  
7 before, this type of rate is new and experimental. The true cost of providing backup power to  
8 large customers who can mimic jumping in and out of APS service is unknown. The argument  
9 that APS should go to FERC also does not make sense. Should APS have to go before the  
10 Commission and ask for an increase in transmission and distribution charges for every rate  
11 schedule to indirectly collect what the FCA would have just recovered by itself? Of course not  
12 - as per the Settlement, the FCA is applied equally throughout the rate schedules.

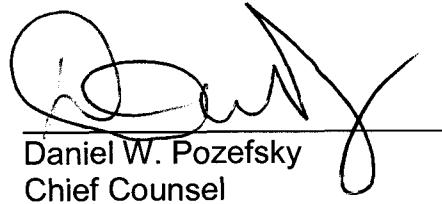
13 Finally, the Joint Parties make the claim that this FCA charge was not anticipated  
14 therefore it was not expressly singled out as an exemption in Attachment J of the Settlement.  
15 Joint Brief at 9. However as Mr. Snook testified, the EIS charge was also undefined as to its  
16 amount but was explicitly mentioned in Attachment J. Transcript at 330.

17 AG-1 customers should not be fully exempted from the FCA and if there is an  
18 exemption greater than what APS proposes, then residential customers should be shielded  
19 from the increase to maintain compliance with the Settlement.

### 20 **CONCLUSION**

21 For all of the above reasons, the Commission should provide cost of debt treatment to  
22 the ratebase increase resulting from the FCA. The Commission should reject the Joint  
23 Parties proposed AG-1 rider and approve RUCO's recommendation to exclude generational  
24 costs and include excess reserve margin.

1 RESPECTFULLY SUBMITTED this 12th day of September, 2014.

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4   
5 Daniel W. Pozefsky  
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10 of September, 2014 with:

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